

Message Text

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ACTION ARA-10

INFO OCT-01 SS-14 ISO-00 PM-03 NSC-10 NSCE-00 SPC-01

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P 041630Z JAN 74

FM AMEMBASSY GEORGETOWN

TO SECSTATE WASHDC PRIORITY 9202

C O N F I D E N T I A L SECTION 1 OF 2 GEORGETOWN 0010

LIMDIS

E.O. 11652: XGDS-1

TAGS: EMIN, EIND, PFOR, GY

SUBJECT: MINISTER OF ENERGY AND NATURAL RESOURCES COMMENTS ON
NEGOTIATIONS WITH REYNOLDS

REF: (A) GEORGETOWN 0005

(B) GEORGETOWN 1501, NOV 30, 1972

(C) STATE 093767, MAY 26, 1972

SUMMARY: MET THURSDAY AFTERNOON FOR BETTER THAN AN HOUR WITH
MINISTER OF ENERGY AND NATURAL RESOURCES HUBERT O. JACK TO
DISCUSS OPENING OF NEGOTIATIONS WITH REYNOLDS. MMINISTER
RESTATED POLICY OF GOG ON OWNERSHIP AND CONTROL OF
EXPLOITATION OF NATURAL RESOURCES, REVIEWED NEGOTIATIONS WITH
ALCAN IN 1971, EXPLAINED INABILITY GOG LET REYNOLDS CONTINUE
DRIFT ALONG INDEFINITELY IN OPERATION WHICH BEING RUN DOWN
AND SERVING INTERESTS OF NEITHER COMPANY NOR PEOPLE OF
GUYANA, EMPHASIZED THAT TOTAL NATIONALIZATION NOT RPT NOT
NECESSARILY EXPECTED OUTCOME OF CURRENT DISCUSSIONS AND
REVIEWED OPENING SESSION ON DECEMBER 28, 1973. MINISTER SAID HE
FAVORED DELAYING MEETING WITH OFFICIALS OF REYNOLDS HOME
OFFICE UNTIL FEBRUARY 15. AT THAT TIME HOPES HAVE ANSWER
AS TO WHETHER REYNOLDS CAN ACCEPT PRINCIPLE OF PARTICIPATION.
IF SO, NEGOTIATIONS CAN PROCEED ON FORM. IF NOT THEY WILL
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DEAL WITH COMPENSATION. FOR TIME BEING WISHES DEFER

DISCUSSION OF VALUATION. I REITERATED US POSITION ON NATIONALIZATION, REVIEWED US LEGISLATION WHICH COULD BE TRIGGERED, REMINDED MINISTER OF OPIC GUARANTEE AND URGED THAT HE AND OTHER GOG OFFICIALS AVOID PUBLIC STATEMENTS WHICH WOULD FREEZE THEIR POSITIONS OR PAINT GOVT INTO CORNER. HE AGREED AND SAID HE HOPED COMPANY SIMILARLY WOULD AVOID PUBLIC STATEMENTS ON NEGOTIATIONS. END SUMMARY.

1. IN CONVERSATION LASTING WELL OVER AN HOUR THURSDAY AFTERNOON, MINISTER OF ENERGY AND NATURAL RESOURCES HUBERT O. JACK RESTATED POLICY OF GOG ON OWNERSHIP AND CONTROL OF NATURAL RESOURCES AND EXPLAINED PHILOSOPHY OF ITS APPLICATION TO REYNOLDS GUYANA MINES, WHICH EVERYONE CONCERNED OF COURSE HAD ALWAYS KNOWN COULD NOT BE PUT OFF IDEFINITELY. HE REVIEWED IN SOME DETAIL NEGOTIATIONS WITH ALCAN IN 1971, ASSERTING THAT GOG HAD NOT THOUGHT AT ALL OF TOTAL NATIONALIZATION AS AN OBJECTIVE AT OUTSET AND, IN FACT, HAD MADE NO PREPARATIONS TO TAKE OVER FULL MANAGEMENT OF COMPANY'S LOCAL SUBSIDIARY DEMBA. GOVT WOULD HAVE PREFERRED PARTNERSHIP ARRANGEMENT WHICH COULD HAVE PROVIDED ACCESS TO ESTABLISHED MARKETING ARRANGEMENTS, SOURCES OF FINANCING AND TECHNOLOGY. HOWEVER, BOTH PARTIES MADE ERRORS IN JUDGEMENT AND ISSUED PUBLIC STATEMENTS WHICH FROZE THEIR RESPECTIVE BARGAINING POSITIONS AND TOTAL NATIONALIZATION RESULTED, WITH COMPENSATION, OF COURSE. SAID HE HOPE AVOID SIMILAR OUTCOME IN REYNOLDS NEGOTIATIONS.

2. OVER PAST TWO YEARS, GOG HAD BEEN DIGESTING DEMBA, NOW CALLED GUYBAU, AND GAINING EXPERIENCE IN OPERATIONS. FEELING IT HAD ENOUGH ON ITS PLATE, IT HAD NOT OPENED FORMAL NEGOTIATIONS WITH REYNOLDS. MEANWHILE, REYNOLDS HAD RUN ITS OPERATIONS DOWN. WHILE IT HAD CANNIBALIZED EQUIPMENT AND PATCHED THINGS UP TO KEEP GOING, COMPANY MADE NO NEW CAPITAL EXPENDITURES WHATSOEVER (FOR VALID REASONS, MINISTER CONCEDED WHEN I ASKED WHY SHOULD IT), UNDERTOOK NO EXPANSION (AGAIN, UNDERSTANDABLY IN CIRCUMSTANCES), AND CONTINUED TO APPLY OUTMODED TECHNOLOGY QUITE INFERIOR TO THAT USED BY GUYBAU (HE AGREED THAT INSTALLATION OF UP TO DATE TECHNOLOGY WOULD

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PROBABLY REQUIRE CAPITAL EXPENDITURES AND THAT HE COULD UNDERSTAND COMPANY'S RELUCTANCE TO MAKE ANY UNTIL FUTURE OF OPERATION WORKED OUT).

3. DURING THIS PERIOD, MINISTER RECALLED, THERE HAD BEEN INFORMAL DISCUSSIONS WITH REYNOLDS ABOUT ITS FUTURE PLANS BUT NONE HAD BEEN SATISFACTORY. HE REMINDED ME OF HIS UNSUCCESSFUL EFFORT, FOR EXAMPLE, DURING MEETING IN

PRIME MINISTER'S OFFICE WITH JUSTICE GOLDBERG AND MC CONNELL AND ROBERTS FROM REYNOLDS OVER YEAR AGO TO OBTAIN ANSWER TO QUESTION WHETHER COMPANY COULD ACCEPT PRINCIPLE OF GOG PARTICIPATION IN ITS OPERATIONS (REF B). HE HAD REPEATEDLY TRIED GET THIS ANSWER AS WELL AS COMPANY'S PLANS FOR EXPANSION, BUT WITHOUT SUCCESS.

4. OBVIOUSLY, MINISTER WENT ON, THIS SITUATION COULD NOT BE ALLOWED TO GO ON INDEFINITELY. IT SERVED NEITHER INTERESTS OF COMPANY, WHICH OUGHT TO BE MAKING MORE MONEY FROM A MORE EFFICIENT OPERATION, NOR THOSE OF GUYANA, WHICH HAD A RIGHT TO EXPECT MAXIMUM AND EFFICIENT EXPLOITATION OF ITS NATURAL RESOURCES TO PROVIDE EXPANDED EMPLOYMENT AND FOREIGN EXCHANGE EARNINGS. DEVELOPMENT DEMANDED A CHANGE. CONSEQUENTLY, PRIME MINISTER HAD STATED PUBLICLY AT CHAGUARAMAS AND ALGIERS THAT NEGOTIATIONS WOULD BE INITIATED WITH REYNOLDS BEFORE END OF 1973. MEETING ON DECEMBER 28 REDEEMED THAT PLEDGE.

5. AT DECEMBER 28 MEETING, REYNOLDS' LOCAL MANAGER GIVEN FOUR-POINT AGENDA: PARTICIPATION MODELS, METHODS OF VALUATION, PLANS FOR EXPANSION AND FUTURE MEETINGS. COMPANY ALSO ASKED PROVIDE CONSIDERABLE DATA ON ITS OPERATIONS, MUCH OF WHICH PREVIOUSLY REQUESTED BUT NOT SUPPLIED. UNDER MINING LAW GOG COULD DEMAND THE DATA, BUT PREFERRED REQUEST IT IN LOW KEY. PRINCIPAL QUESTION POSED BY GOG ON DECEMBER 28 AS WHETHER REYNOLDS WILLING ACCEPT PRINCIPLE OF GOVT PARTICIPATION. EVEN THOUGH COMPANY HAS LONG KNOWN GOG'S POSITION THAT IT MUST HAVE MINIMUM OF 51 PERCENT EQUITY AND COMMENSURATE CONTROL OF MANAGEMENT AND SHOULD HAVE MADE UP ITS MIND BY NOW, MINISTER FAVORS GIVING COMPANY UNTIL FEB 15 TO COME UP

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WITH UNEQUIVOCAL ANSWER ALONG WITH DATA REQUESTED. IF COMPANY CAN ACCEPT PRINCIPLE OF PARTICIPATION, NEGOTIATIONS CAN GO DOWN THAT ROAD. IF NOT, THEN NATIONALIZATION OF ALL OR PART WILL BE INEVITABLE AND NEGOTIATIONS CAN IMMEDIATELY TURN TO COMPENSATION. GOG PREPARED CONSIDER ANY CONCRETE PROPOSALS REYNOLDS MAKE
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INFO OCT-01 SS-14 ISO-00 PM-03 NSC-10 NSCE-00 SPC-01

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C O N F I D E N T I A L SECTION 2 OF 2 GEORGETOWN 0010

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6. I THEN RESTATED US POSITION ON NATIONALIZATION, VIZ IT IS RECOGNIZED AS A SOVEREIGN RIGHT IN THE PUBLIC INTEREST PROVIDED THERE IS PROMPT, ADEQUATE AND EFFECTIVE COMPENSATION, AND WENT OVER AGAIN THE PROVISIONS OF THE HICKENLOOPER AND GONZALES AMENDMENTS, THE SUGAR ACT, AND THE PRESIDENT'S STATEMENT OF JANUARY 19, 1972 TO REMIND THE MINISTER OF POSSIBLE CONSEQUENCES IF AGREEMENT COULD NOT BE REACHED ON COMPENSATION IN THE EVENT OF NATIONALIZATION. I ALSO REMINDED HIM OF OPIC'S INVESTMENT GUARANTEE IN REYNOLDS' FAVOR AND POINTED OUT THAT DISPUTE COULD BECOME ONE BETWEEN OUR TWO GOVERNMENTS WITH DIRE RESULTS ON US ASSISTANCE AND INTERNATIONAL AGENCY FINANCING OF GOG'S DEVELOPMENT PLAN. HE SAID HE WAS WELL AWARE OF ALL THIS AND TRUSTED THAT IT COULD BE AVOIDED. I URGED GOOD FAITH NEGOTIATIONS AND AVOIDANCE OF PUBLIC STATEMENTS WHICH WOULD FREEZE GOG'S NEGOTIATING POSITIONS AND PAINT IT INTO CORNER. MINISTER AGREED COMPLETELY, NOTED HE HAD MADE NO STATEMENTS, SAID HE DID NOT INTEND TO DO SO AND EXPRESSED HOPE THAT COMPANY WOULD FOLLOW SIMILAR COURSE.

7. ADDITIONAL MISCELLANEOUS ITEMS OF POSSIBLE INTEREST WHICH CAME UP IN COURSE OF DISCUSSION INCLUDED:

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A. MINISTER CONCEDED REYNOLDS UNHAPPY THAT LEASES PROMISED BY HIS PREDECESSORS AND SUBORDINATE OFFICIALS AS FAR BACK AS 1966 HAD NEVER BEEN EXTENDED. CLAIMED TIMES AND METHODS HAD CHANGED, THAT COMPANY WANTED 50 YEAR LEASES WHICH OUT OF QUESTION UNDER POLICY OF OWNERSHIP AND CONTROL ENUNCIATED IN 1970 AND, ESPECIALLY, IN PREELETION PERIOD.

B. REYNOLDS CLAIMS HAS RESERVES OF ONLY 12 MILLION TONS, WHICH WOULD KEEP OPERATION GOING ONLY ABOUT 12 MORE

YEARS. GOG IS CONFIDENT, ESPECIALLY ON BASIS RECENT SEISMIC SOUNDINGS, THAT RESERVES ARE VERY MUCH GREATER AND ARE OF HIGH GRADE USUAL IN GUYANA. BELIEVES COMPANY HAS NOT MET ITS OBLIGATIONS WITH RESPECT TO EXPLORATION.

C. COMPANY HAS TRIED TO CONSOLIDATE ITS WORK ON EP'S (EXCLUSIVE PRIVILEGES) BY COMBINING NUMBER OF THEM AND THEN LUMPING REQUIRED EXPENDITURE ON EACH INTO SINGLE EXPENDITURE AT ONE SITE. THIS DEFEATS WHOLE PURPOSE, OF COURSE, SINCE WOULD MEAN WORK WOULD NOT BE SPREAD OVER WIDE AREAS AS INTENDED.

D. DURING ALCAN NEGOTIATIONS, CHAIRMAN NATHANIEL DAVIS ABSOLUTELY REFUSED CONSIDER WRITTEN DOWN BOOK VALUE AS BASIS FOR COMPENSATION. GOG PROPOSED THE 107 MILLION G DOLLARS AND THE SIX PERCENT INTEREST THAT WERE IN FINAL SETTLEMENT, WHICH RAISED FIGURE ABOVE WRITTEN DOWN BOOK VALUE AND SATISFIED ALCAN, BUT RETAINED INCOME TAX ON INTEREST LARGELY OFFSET BENEFITS TO ALCAN OF HIGHER FIGURE AND MADE IT ACCEPTABLE TO GOG.

E. IN RESPONSE TO DIRECT QUESTION, MINISTER SAID HE ESTIMATED REYNOLDS WRITTEN DOWN BOOK VALUE AT SOMEWHERE AROUND 28 TO 30 MILLION G DOLLARS (14 TO 15 MILLION US, MORE OR LESS) BUT ASKED THAT HE NOT BE HELD TO THIS FIGURE.

F. IN RESPONSE TO DIRECT QUESTION FROM MINISTER, I HAD TO PROFESS IGNORANCE OF THE EXACT AMOUNT OF OPIC'S GUARANTEE, HAVING BEEN DENIED PERMISSION IN 1972 TO INFORM PRIME MINISTER AND GOG OF THE CHANGE FROM 16.3 MILLION US TO 14.3 MILLION MADE UNILATERALLY BY
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OPIC(REF C). I DID TELL HIM WHEN HE ASKED, HOWEVER, THAT IT WAS A STRAIGHT-LINE AMOUNT. THIS LED HIM TO NOTE THAT THE INSURANCE PROBABLY EXCEEDED TODAY'S VALUE OF RUN-DOWN PROPERTIES AND THAT THIS COULD PROVIDE THE COMPANY AN INCENTIVE TO TRY TO COLLECT THE INSURANCE RATHER THAN SETTLE WITH GOG.

G. NOTING THAT I HAD NO SPECIFIC INFORMATION ON REYNOLDS' FINANCES AND DEBT STRUCTURE, I WARNED THE MINISTER THAT COMPENSATION ON THE ALCAN MODEL MIGHT NOT BE ACCEPTABLE TO REYNOLDS OR TO THE USG AND FOR PERFECTLY VALID REASONS. I SAID I ALSO RECOGNIZED PROBLEMS BURNHAM AND GOG COULD FACE WITH CANADA AND INTERNAL POLITICAL ELEMENTS IF GOVT SEEMED BE DISCRIMINATING AGAINST CANADA IN FAVOR OF US. FOR THIS REASON, I AGAIN STRESSED NEED FOR CAUTION AND AVOIDANCE OF PUBLIC STATEMENTS. HE SAID HE RECOGNIZED DANGERS AND AGREED ON NEED AVOID STATEMENTS.

H. POSSIBILITY OF REYNOLDS SELLING OUT TO OTHER INTERESTS WHO MIGHT BE MORE AMENABLE TO GOG PARTICIPATION CAME UP BRIEFLY. MINISTER NOTED REYNOLDS COULD NOT DIVEST ITSELF OF ITS HOLDINGS WITHOUT GOG APPROVAL EXCEPT THROUGH REMOVAL, AND THIS WOULD MEAN GETTING RID OF PLANT AND EQUIPMENT AS SCRAP, WHICH CERTAINLY WOULD NOT BE VERY REMUNERATIVE. HE DOUBTED THAT OTHER INTERESTS WOULD BE WILLING PAY REYNOLDS ANY SUBSTANTIAL AMOUNT FOR ITS HOLDINGS IN GUYANA GIVEN GOG'S POLICY ON MAJORITY OWNERSHIP AND CONTROL. NEVERTHELESS, HE SAID HE WOULD NOT CLOSE DOOR TO CONSIDERATION OF SUCH A SOLUTION SHOULD IT BE PROPOSED.

8. AS POSTSCRIPT, DEPT SHOULD KNOW THAT PRIME MINISTER BURNHAM HAS BEEN COOPED UP IN TOP FLOOR BEDROOM OF HIS COUNTRY HOME AT BELFIED EVER SINCE HE RETURNED FROM VISIT TO JAMAICA ON DECEMBER 4, REPORTEDLY WITH "WATER ON THE KNEE." THOSE WHO HAVE SEEN HIM REPORT THAT HE IS INCREASINGLY IRRITABLE AND IN EXPLOSIVE MOOD. KING

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